

James Hardie Industries N.V. and Subsidiaries

**Condensed Consolidated Financial Statements
as of and for the Three Months Ended 30 June 2007**

James Hardie Industries N.V. and Subsidiaries

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Item 1. Financial Statements

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	(Millions of US dollars)		(Millions of Australian dollars)	
	30 June 2007	31 March 2007	30 June 2007	31 March 2007
Assets				
Current assets:				
Cash and cash equivalents	\$ 80.6	\$ 34.1	A\$ 95.0	A\$ 42.3
Restricted cash and cash equivalents	149.7	151.9	176.4	188.3
Accounts and notes receivable, net of allowance for doubtful accounts of \$1.4 million (A\$1.6 million) and \$1.5 million (A\$1.9 million) as of 30 June 2007 and 31 March 2007, respectively	168.2	163.4	198.2	202.5
Inventories	133.6	147.6	157.4	183.0
Prepaid expenses and other current assets	48.5	32.4	57.1	40.2
Insurance receivable - Asbestos	9.9	9.4	11.7	11.7
Workers' compensation - Asbestos	2.9	2.7	3.4	3.3
Deferred income taxes	18.5	27.3	21.8	33.8
Deferred income taxes - Asbestos	9.4	7.8	11.1	9.7
Total current assets	621.3	576.6	732.1	714.8
Property, plant and equipment, net	839.6	827.7	989.2	1,025.9
Insurance receivable - Asbestos	167.5	165.1	197.3	204.6
Workers' compensation - Asbestos	80.5	76.5	94.8	94.8
Deferred income taxes	2.3	6.9	2.7	8.6
Deferred income taxes - Asbestos	330.8	318.2	389.7	394.4
Deposit with Australian Taxation Office	173.7	154.8	204.7	191.9
Other assets	2.1	2.3	2.5	2.9
Total assets	\$ 2,217.8	\$ 2,128.1	A\$ 2,613.0	A\$ 2,637.9
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 125.8	\$ 100.8	A\$ 148.2	A\$ 124.9
Short-term debt	60.0	83.0	70.7	102.9
Dividends payable	70.7	-	83.3	-
Accrued payroll and employee benefits	38.0	42.0	44.8	52.1
Accrued product warranties	6.7	5.7	7.9	7.1
Income taxes payable	26.1	10.6	30.8	13.1
Asbestos liability	66.8	63.5	78.7	78.7
Workers' compensation - Asbestos	2.9	2.7	3.4	3.3
Other liabilities	14.0	9.3	16.5	11.5
Total current liabilities	411.0	317.6	484.3	393.6
Long-term debt	65.0	105.0	76.6	130.1
Deferred income taxes	93.8	93.8	110.5	116.3
Accrued product warranties	9.8	9.5	11.5	11.8
Asbestos liability	1,272.0	1,225.8	1,498.7	1,519.4
Workers' compensation - Asbestos	80.5	76.5	94.8	94.8
Other liabilities	138.0	41.2	162.6	51.1
Total liabilities	2,070.1	1,869.4	A\$ 2,439.0	A\$ 2,317.1
Commitments and contingencies (Note 7)				
Shareholders' equity:				
Common stock, Euro 0.59 par value, 2.0 billion shares authorised; 467,695,751 shares issued and outstanding at 30 June 2007 and 467,295,391 shares issued and outstanding at 31 March 2007	252.1	251.8		
Additional paid-in capital	183.8	180.2		
Accumulated deficit	(300.7)	(178.7)		
Accumulated other comprehensive income	12.5	5.4		
Total shareholders' equity	147.7	258.7		
Total liabilities and shareholders' equity	\$ 2,217.8	\$ 2,128.1		

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(Millions of US dollars, except per share data)	Three Months Ended 30 June	
	2007	2006
Net sales	\$ 424.4	\$ 415.5
Cost of goods sold	(257.5)	(257.8)
Gross profit	166.9	157.7
Selling, general and administrative expenses	(55.5)	(51.7)
Research and development expenses	(6.3)	(7.5)
SCI and other related expenses	-	(2.4)
Asbestos adjustments	(30.1)	(27.2)
Operating income	75.0	68.9
Interest expense	(1.3)	(5.6)
Interest income	1.8	3.6
Income before income taxes	75.5	66.9
Income tax expense	(36.4)	(32.3)
Income before cumulative effect of change in accounting principle	39.1	34.6
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of nil and \$0.4 million, respectively	-	0.9
Net income	\$ 39.1	\$ 35.5
Net income per share - basic	\$ 0.08	\$ 0.08
Net income per share - diluted	\$ 0.08	\$ 0.08
Weighted average common shares outstanding (Millions):		
Basic	467.4	463.3
Diluted	469.4	466.9

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended 30 June	
(Millions of Australian dollars, except per share data)	2007	2006
Net sales	A\$ 510.3	A\$ 556.1
Cost of goods sold	(309.6)	(345.0)
Gross profit	200.7	211.1
Selling, general and administrative expenses	(66.7)	(69.2)
Research and development expenses	(7.6)	(10.0)
SCI and other related expenses	-	(3.2)
Asbestos adjustments	(36.2)	(36.4)
Operating income	90.2	92.3
Interest expense	(1.6)	(7.5)
Interest income	2.2	4.8
Income before income taxes	90.8	89.6
Income tax expense	(43.8)	(43.3)
Income before cumulative effect of change in accounting principle	47.0	46.3
Cumulative effect of change in accounting principle for stock-based compensation, net of income tax expense of nil and A\$0.5 million, respectively	-	1.2
Net income	A\$ 47.0	A\$ 47.5
Net income per share - basic	A\$ 0.10	A\$ 0.10
Net income per share - diluted	A\$ 0.10	A\$ 0.10
Weighted average common shares outstanding (Millions):		
Basic	467.4	463.3
Diluted	469.4	466.9

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of US dollars)	Three Months Ended 30 June	
	2007	2006
Cash Flows From Operating Activities		
Net income	\$ 39.1	\$ 35.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	14.2	11.0
Deferred income taxes	11.7	9.0
Prepaid pension cost	0.4	0.7
Stock-based compensation	1.5	0.2
Asbestos adjustments	30.1	27.2
Cumulative effect of change in accounting principle	-	(0.9)
Deposit with Australian Taxation Office	(1.0)	-
Other	(0.8)	-
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	10.7	-
Accounts and notes receivable	(2.5)	(3.9)
Insurance receivable	6.2	-
Inventories	16.0	(12.2)
Prepaid expenses and other current assets	(15.6)	(5.5)
Accounts payable and accrued liabilities	21.2	(3.9)
Asbestos liability	(17.2)	-
Other accrued liabilities and other liabilities	17.5	3.5
Net cash provided by operating activities	131.5	60.7
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(16.5)	(35.5)
Net cash used in investing activities	(16.5)	(35.5)
Cash Flows From Financing Activities		
Repayments of short-term borrowings	(23.0)	(44.0)
Repayments of long-term borrowings	(40.0)	(121.7)
Proceeds from issuance of shares	2.2	0.2
Tax benefit from stock options exercised	0.2	-
Net cash used in financing activities	(60.6)	(165.5)
Effects of exchange rate changes on cash	(7.9)	0.6
Net increase (decrease) in cash and cash equivalents	46.5	(139.7)
Cash and cash equivalents at beginning of period	34.1	315.1
Cash and cash equivalents at end of period	\$ 80.6	\$ 175.4
Components of Cash and Cash Equivalents		
Cash at bank and on hand	\$ 32.7	\$ 23.6
Short-term deposits	47.9	151.8
Cash and cash equivalents at end of period	\$ 80.6	\$ 175.4

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(Millions of Australian dollars)	Three Months Ended 30 June	
	2007	2006
Cash Flows From Operating Activities		
Net income	A\$ 47.0	A\$ 47.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortisation	17.1	14.7
Deferred income taxes	14.1	12.0
Prepaid pension cost	0.5	0.9
Stock-based compensation	1.8	0.3
Asbestos adjustments	36.2	36.5
Cumulative effect of change in accounting principle	-	(1.3)
Deposit with Australian Taxation Office	(1.2)	-
Other	(1.0)	-
Changes in operating assets and liabilities:		
Restricted cash and cash equivalents	12.9	-
Accounts and notes receivable	(2.9)	-
Insurance receivable	7.5	(5.2)
Inventories	19.2	(16.3)
Prepaid expenses and other current assets	(18.8)	(7.4)
Accounts payable and accrued liabilities	25.5	(5.2)
Asbestos liability	(20.7)	-
Other accrued liabilities and other liabilities	21.0	4.7
Net cash provided by operating activities	158.2	81.2
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(19.8)	(47.6)
Net cash used in investing activities	(19.8)	(47.6)
Cash Flows From Financing Activities		
Repayments of short-term borrowings	(27.7)	(58.9)
Repayments of long-term borrowings	(48.1)	(162.9)
Proceeds from issuance of shares	2.6	0.3
Tax benefit from stock options exercised	0.2	-
Net cash used in financing activities	(73.0)	(221.5)
Effects of exchange rate changes on cash	(12.7)	(16.4)
Net increase (decrease) in cash and cash equivalents	52.7	(204.3)
Cash and cash equivalents at beginning of period	42.3	440.4
Cash and cash equivalents at end of period	A\$ 95.0	A\$ 236.1
Components of Cash and Cash Equivalents		
Cash at bank and on hand	A\$ 38.5	A\$ 31.7
Short-term deposits	56.5	204.4
Cash and cash equivalents at end of period	A\$ 95.0	A\$ 236.1

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries
Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

(Millions of US dollars)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balances as of 31 March 2007	\$ 251.8	\$ 180.2	\$ (178.7)	\$ 5.4	\$ 258.7
Comprehensive income:					
Net income	-	-	39.1	-	39.1
Pension and post-retirement benefit adjustments	-	-	-	(0.2)	(0.2)
Foreign currency translation gain	-	-	-	7.3	7.3
Other comprehensive income	-	-	-	7.1	7.1
Total comprehensive income				46.2	46.2
Adoption of FIN 48	-	-	(90.4)	-	(90.4)
Stock-based compensation	-	1.5	-	-	1.5
Tax benefit from stock options exercised	-	0.2	-	-	0.2
Stock options exercised	0.3	1.9	-	-	2.2
Dividends payable	-	-	(70.7)	-	(70.7)
Balances as of 30 June 2007	\$ 252.1	\$ 183.8	\$ (300.7)	\$ 12.5	\$ 147.7

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

James Hardie Industries N.V. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

Nature of Operations

The Company manufactures and sells fibre cement building products for interior and exterior building construction applications primarily in the United States, Australia, New Zealand, Philippines and Europe.

Basis of Presentation

The condensed consolidated financial statements represent the financial position, results of operations and cash flows of James Hardie Industries N.V. ("JHI NV") and its current wholly owned subsidiaries and special interest entities, collectively referred to as either the "Company" or "James Hardie" and JHI NV together with its subsidiaries as of the time relevant to the applicable reference, the "James Hardie Group," unless the context indicates otherwise. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in the Company's Annual Report on Form 20-F for the fiscal year ended 31 March 2007.

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring adjustments which, in the opinion of the Company's management, are necessary to state fairly the consolidated financial position of the Company at 30 June 2007, and the consolidated results of operations and the consolidated cash flows for the three months ended 30 June 2007 and 2006. The results of operations for the three months ended 30 June 2007 are not necessarily indicative of the results to be expected for the full year. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The assets, liabilities, statements of operations and statements of cash flows of the Company have been presented with accompanying Australian dollar (A\$) convenience translations as the majority of the Company's shareholder base is Australian. These A\$ convenience translations are not prepared in accordance with accounting principles generally accepted in the United States of America. The exchange rates used to calculate the convenience translations are as follows:

(US\$1 = A\$)	31 March 2007	30 June 2007	2006
Assets and liabilities	1.2395	1.1782	1.3463
Statements of operations	n/a	1.2024	1.3383
Cash flows - beginning cash	n/a	1.2395	1.3975
Cash flows - ending cash	n/a	1.1782	1.3463
Cash flows - current period movements	n/a	1.2024	1.3383

2. Summary of Significant Accounting Policies

Earnings Per Share

The Company is required to disclose basic and diluted earnings per share ("EPS"). Basic EPS is calculated using income divided by the weighted average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares calculated using the treasury method that would have been outstanding if dilutive potential common shares, such as options, had been exercised. Accordingly, basic and dilutive common shares outstanding used in determining net income per share are as follows:

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

	Three Months Ended 30 June	
(Millions of shares)	2007	2006
Basic common shares outstanding	467.4	463.3
Dilutive effect of stock options	2.0	3.6
Diluted common shares outstanding	<u>469.4</u>	<u>466.9</u>
	<hr/>	
(US dollars)	2007	2006
Net income per share - basic	\$ 0.08	\$ 0.08
Net income per share - diluted	\$ 0.08	\$ 0.08

Potential common shares of nil and 6.5 million for the three months ended 30 June 2007 and 2006, respectively, have been excluded from the calculations of diluted common shares outstanding because the effect of their inclusion would be anti-dilutive.

Advertising

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense was US\$4.0 million and US\$4.3 million for the three months ended 30 June 2007 and 2006, respectively.

Stock-Based Compensation

The Company recognised stock-based compensation expense (included in selling, general and administrative expenses) of US\$1.5 million and US\$1.5 million for the three months ended 30 June 2007 and 2006, respectively. The amount for the three months ended 30 June 2006 excludes the forfeiture adjustment of US\$1.3 million (US\$0.9 million net of tax) which is separately disclosed as "Cumulative effect of change in accounting principle for stock-based compensation". The tax benefit related to the forfeiture adjustment was US\$0.4 million for the three months ended 30 June 2006.

Upon adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation", at the beginning of fiscal year 2007, the Company analysed forfeiture rates on all of its 2001 Stock Option Plan grants for which vesting was complete resulting in an estimated weighted average forfeiture rate of 30.7%. Based on this estimated rate, a cumulative adjustment to stock-based compensation expense of US\$1.3 million was recorded for the three months ended 30 June 2006. The adjustment is presented on the consolidated statements of operations as a cumulative effect of change in accounting principle (net of income tax). The portion of the cumulative adjustment that relates to USA-based employees caused a reduction in the deferred tax asset previously recorded. For the three months ended 30 June 2006, the amount of the cumulative adjustment related to USA-based employees was US\$1.0 million. Therefore, the related USA income tax adjustment was US\$0.4 million which was recorded to income tax.

Asbestos

Prior to 31 March 2007, the Company's consolidated financial statements included an asbestos provision relating to its anticipated future payments to a Special Purpose Fund ("SPF") based on the terms of the Original Final Funding Agreement ("Original FFA") entered into on 1 December 2005.

In February 2007, the shareholders approved the Amended Final Funding Agreement ("Amended FFA") entered into on 21 November 2006 to provide long-term funding to the Asbestos Injuries Compensation Fund ("AICF"), a special purpose fund that provides compensation for Australian-related personal injury claims against certain former subsidiary companies of James Hardie in Australia (being Amaca Pty Ltd ("Amaca"), Amaba Pty Ltd ("Amaba") and ABN 60 Pty Ltd ("ABN 60") (the "Liable Entities")).

James Hardie Industries N.V. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Amaca and Amaba separated from the James Hardie Group in February 2001. ABN 60 separated from the James Hardie Group in March 2003. Upon shareholder approval of the Amended FFA in February 2007, shares in the Liable Entities were transferred to the AICF. The Company appoints three of the AICF directors and the NSW state government appoints two of the AICF directors. The AICF manages Australian asbestos-related personal injury claims made against the Liable Entities, and makes compensation payments in respect of those proven claims.

AICF

Under the terms of the Amended FFA, James Hardie 117 Pty Ltd (the "Performing Subsidiary") has a contractual liability to make payments to the AICF. This funding to the AICF results in the Company having a pecuniary interest in the AICF. The interest is considered variable because the potential impact on the Company will vary based upon the annual actuarial assessments obtained by the Company with respect to asbestos-related personal injury claims against the Liable Entities. Due to the Company's variable interest in the AICF, it consolidates the AICF in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities".

The AICF has operating costs that are claims related and non-claims related. Claims related costs incurred by the AICF are treated as reductions to the accrued asbestos liability balances previously reflected in the consolidated balance sheets. Non-claims related operating costs incurred by the AICF are included in the line item *Selling, general and administrative expenses* in the consolidated statements of operations. The AICF earns interest on its cash and cash equivalents, these amounts are included in the line item *Interest income* in the consolidated statements of operations.

Asbestos-Related Assets and Liabilities

The Company has recorded on its consolidated balance sheets certain assets and liabilities under the terms of the Amended FFA. These items are Australian dollar-denominated and are subject to translation into US dollars at each reporting date. These assets and liabilities are commonly referred to by the Company as *Asbestos-Related Assets and Liabilities* and include:

Asbestos Liability

The amount of the asbestos liability reflects the terms of the Amended FFA and has been calculated by reference to (but is not exclusively based upon) the most recent actuarial estimate of projected future cash flows prepared by KPMG Actuaries Pty Ltd ("KPMG Actuaries"). The asbestos liability includes these cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows are not fixed or readily determinable. The asbestos liability also includes an allowance for the future claims-handling costs of the AICF.

Adjustments in the asbestos liability due to changes in the actuarial estimate of projected future cash flows and changes in the estimate of future operating costs of the AICF are reflected in the consolidated statements of operations during the period in which they occur. Claims paid by the AICF and claims-handling costs incurred by the AICF are treated as reductions in the accrued balances previously reflected in the consolidated balance sheets.

Insurance Receivable

There are various insurance policies and insurance companies with exposure to the asbestos claims. The insurance receivable determined by KPMG Actuaries reflect the recoveries expected from all such policies based on the expected pattern of claims against such policies less an allowance for credit risk based on credit agency ratings. The insurance receivable includes these cash flows as undiscounted and uninflated on the basis that it is inappropriate to discount or inflate future cash flows when the timing and amounts of such cash flows are not fixed or readily determinable. The Company only records insurance receivable that it deems to be probable.

James Hardie Industries N.V. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Included in insurance receivable is US\$13.8 million shown on a discounted basis because the timing of the recoveries has been agreed with the insurer.

Adjustments in insurance receivable due to changes in the actuarial estimate, or changes in the Company's assessment of recoverability are reflected in the consolidated statements of operations during the period in which they occur. Insurance recoveries are treated as a reduction in the insurance receivable balance.

Workers' Compensation

Workers' compensation claims are claims made by former employees of the Liable Entities. Such past, current and future reported claims were insured with various insurance companies and the various Australian State-based workers' compensation schemes (collectively "workers' compensation schemes or policies"). An estimate of the liability related to workers' compensation claims is prepared by KPMG Actuaries as part of the annual actuarial assessment. This estimate contains two components, amounts that will be met by a workers' compensation scheme or policy, and amounts that will be met by the Liable Entities.

The portion of the KPMG Actuaries estimate that is expected to be met by the Liable Entities is included as part of the *Asbestos Liability*. Adjustments to this estimate are reflected in the consolidated statements of operations during the period in which they occur.

The portion of the KPMG Actuaries estimate that is expected to be met by the workers' compensation schemes or policies of the Liable Entities is recorded by the Company as a workers' compensation liability. Since these amounts are expected to be met by the workers' compensation schemes or policies, the Company records an equivalent workers' compensation receivable. Adjustments to the workers' compensation liability result in an equal adjustment in the workers' compensation receivable recorded by the Company and have no effect on the consolidated statements of operations.

Asbestos-Related Research and Education Contributions

The Company has agreed to fund asbestos-related research and education initiatives for a period of 10 years, beginning in fiscal year 2007. The liabilities related to these agreements are included in "Other Liabilities" on the consolidated balance sheets.

Restricted Cash Assets of the AICF

Cash and cash equivalents of the AICF are reflected as restricted assets, as the use of these assets is restricted to the settlement of asbestos claims and payment of the operating costs of the AICF.

AICF – Other Assets and Liabilities

Other assets and liabilities of the AICF, including fixed assets, trade receivables and payables are included on the consolidated balance sheets under the appropriate captions and their use is restricted to the operations of the AICF.

Deferred Income Taxes

The Performing Subsidiary is able to claim a taxation deduction for its contributions to the AICF over a five-year period from the date of contribution. Consequently, a deferred tax asset has been recognised equivalent to the anticipated tax benefit over the life of the Amended FFA.

Adjustments are made to the deferred income tax asset as adjustments to the asbestos-related assets and liabilities are recorded.

James Hardie Industries N.V. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Foreign Currency Translation

The asbestos-related assets and liabilities are denominated in Australian dollars and thus the reported value of these asbestos-related assets and liabilities in the Company's consolidated balance sheets in US dollars are subject to adjustment depending on the closing exchange rate between the two currencies at the balance sheet date. The effect of foreign exchange rate movements between these currencies is included in *Asbestos Adjustments* in the consolidated statements of operations.

Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with SFAS No. 109. Unlike SFAS No. 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted FIN 48 on 1 April 2007. The adoption of FIN 48 resulted in the reduction of the Company's consolidated beginning retained earnings of US\$90.4 million. As of the adoption date, the Company had US\$39.0 million of gross unrecognised tax benefits that if recognised would affect the effective tax rate. As of the adoption date, the Company's opening accrual for interest and penalties is US\$52.1 million.

During the three months ended 30 June 2007, the gross increase in unrecognised tax benefits as a result of tax positions taken during a prior period was US\$1.5 million. There was also an unfavourable US\$2.0 million impact of changes in foreign currency exchange rates. If recognised, US\$40.5 million, of the 30 June 2007 balance would affect the effective tax rate.

The Company recognises penalties and interest accrued related to unrecognised tax benefits in income tax expense. During the three months ended 30 June 2007, the Company recognised a US\$0.9 million increase in interest and penalties and recognised this amount as income tax expense. There was also an unfavourable impact of changes in foreign currency exchange rates of US\$2.7 million. At 30 June 2007, the accrual for interest and penalties is US\$55.7 million.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions including Australia and the Netherlands. The Company is no longer subject to U.S. federal examinations by U.S. Internal Revenue Service ("IRS") for tax years prior to tax year 2004. The Company is no longer subject to examinations by the Netherlands tax authority, the Belastingdienst, for tax years prior to tax year 2002. With certain limited exceptions, the Company is no longer subject to Australian federal examinations by the Australian Taxation Office ("ATO") for tax years prior to tax year 2000. The Company is currently subject to audit and review in a number of jurisdictions in which it operates and has been advised that further audits will commence in the next 12 months. It is anticipated that the audits and reviews currently being conducted will be completed within the next 12 months.

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognised tax benefits could significantly increase or decrease within the next twelve months. These changes could result from the settlement of ongoing litigation, the completion of ongoing examinations, the expiration of the statute of limitations, or other circumstances. At this time, an estimate of the range of the reasonably possible change cannot be made.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Recent Accounting Pronouncements

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which allows for voluntary measurement of financial assets and liabilities as well as certain other items at fair value. Unrealised gains and losses on financial instruments for which the fair value option has been elected are reported in earnings. The provisions of SFAS No. 159 are effective for the Company on 1 April 2008, and it is currently evaluating the impact on its financial statements of adopting SFAS No. 159.

3. Inventories

Inventories consist of the following components:

<u>(Millions of US dollars)</u>	30 June 2007	31 March 2007
Finished goods	\$ 86.8	\$ 101.5
Work-in-process	15.8	12.3
Raw materials and supplies	37.2	37.8
Provision for obsolete finished goods and raw materials	<u>(6.2)</u>	<u>(4.0)</u>
Total inventories	<u>\$ 133.6</u>	<u>\$ 147.6</u>

4. Operating Segment Information and Concentrations of Risk

The Company has reported its operating segment information in the format that the operating segment information is available to and evaluated by the Board of Directors. USA Fibre Cement manufactures and sells fibre cement interior linings, exterior siding and related accessories products in the United States. Asia Pacific Fibre Cement includes all fibre cement manufactured in Australia, New Zealand and the Philippines and sold in Australia, New Zealand and Asia. Research and Development represents the cost incurred by the research and development centres. Other includes the manufacture and sale of fibre cement reinforced pipes in the United States, fibre cement operations in Europe and roofing operations in the United States. The roofing plant was closed and the business ceased operations in April 2006. The Company's operating segments are strategic operating units that are managed separately due to their different products and/or geographical location.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The following are the Company's operating segments and geographical information:

Operating Segments

(Millions of US dollars)	Net Sales to Customers Three Months Ended 30 June	
	2007	2006
USA Fibre Cement	\$ 346.1	\$ 348.9
Asia Pacific Fibre Cement	71.2	59.2
Other	7.1	7.4
Worldwide total	<u>\$ 424.4</u>	<u>\$ 415.5</u>

(Millions of US dollars)	Income Before Income Taxes Three Months Ended 30 June	
	2007	2006
USA Fibre Cement	\$ 114.4	\$ 103.3
Asia Pacific Fibre Cement	12.4	10.3
Research and Development	(4.1)	(4.6)
Other	(1.3)	(2.7)
Segments total	121.4	106.3
General Corporate ¹	(46.4)	(37.4)
Total operating income	75.0	68.9
Net interest income ²	0.5	(2.0)
Worldwide total	<u>\$ 75.5</u>	<u>\$ 66.9</u>

(Millions of US dollars)	Total Identifiable Assets	
	30 June 2007	31 March 2007
USA Fibre Cement	\$ 884.5	\$ 893.0
Asia Pacific Fibre Cement	206.8	199.3
Other	53.7	52.5
Segments total	1,145.0	1,144.8
General Corporate ³	1,072.8	983.3
Worldwide total	<u>\$ 2,217.8</u>	<u>\$ 2,128.1</u>

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Geographic Areas	Net Sales to Customers	
	Three Months	
(Millions of US dollars)	Ended June 30	
	2007	2006
USA	\$ 349.1	\$ 353.7
Australia	46.8	41.0
New Zealand	17.3	12.4
Other Countries	11.2	8.4
Worldwide total	<u>\$ 424.4</u>	<u>\$ 415.5</u>

(Millions of US dollars)	Total Identifiable Assets	
	30 June	31 March
	2007	2007
USA	\$ 926.3	\$ 935.7
Australia	131.3	127.1
New Zealand	24.7	23.1
Other Countries	62.7	58.9
Segments total	<u>1,145.0</u>	<u>1,144.8</u>
General Corporate ³	<u>1,072.8</u>	<u>983.3</u>
Worldwide total	<u>\$ 2,217.8</u>	<u>\$ 2,128.1</u>

¹ Included in General Corporate for the three months ended 30 June 2007 are unfavourable asbestos adjustments of US\$30.1 million and AICF SG&A expenses of US\$0.6 million. Included in General Corporate for the three months ended 30 June 2006 are unfavourable asbestos adjustments of US\$27.2 million. See Note 6.

² Included in Net Interest Income for the three months ended 30 June 2007 is AICF interest income of US\$1.6 million. See Note 6.

³ Asbestos-related assets at 30 June 2007 and 31 March 2007 are \$746.6 million and US\$727.6 million, respectively, and are included in the General Corporate segment. See Note 6.

5. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following components:

(Millions of US dollars)	30 June	31 March
	2007	2007
Pension and post-retirement benefit adjustments (net of US\$1.2 million and US\$1.2 million tax benefit, respectively)	\$ (2.9)	(2.7)
Foreign currency translation adjustments	15.4	8.1
Total accumulated other comprehensive income	<u>\$ 12.5</u>	<u>\$ 5.4</u>

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

6. Asbestos

In February 2007, the Amended FFA was approved to provide long-term funding to the AICF. The accounting policies utilised by the Company to account for the Amended FFA are described in Note 2, *Summary of Significant Accounting Policies*.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Asbestos Adjustments

The asbestos adjustments included in the condensed consolidated statements of operations comprise the following components for the three months ended 30 June:

(Millions of US dollars)	2007	2006
Effect of foreign exchange	\$ (33.2)	\$ (27.2)
Other adjustments	3.1	-
Total Asbestos Adjustments	\$ (30.1)	\$ (27.2)

Asbestos-Related Assets and Liabilities

Under the terms of the Amended FFA, the Company has included on its consolidated balance sheets certain asbestos-related assets and liabilities. These amounts are detailed in the table below, and the net total of these asbestos-related assets and liabilities is commonly referred to by the Company as the "Net Amended FFA Liability".

(Millions of US dollars)	30 June 2007	31 March 2007
Asbestos liability – current	\$ (66.8)	\$ (63.5)
Asbestos liability – non-current	(1,272.0)	(1,225.8)
Asbestos liability - Total	(1,338.8)	(1,289.3)
Insurance receivable – current	9.9	9.4
Insurance receivable – non-current	167.5	165.1
Insurance receivable – Total	177.4	174.5
Workers' compensation asset – current	2.9	2.7
Workers' compensation asset – non-current	80.5	76.5
Workers' compensation liability – current	(2.9)	(2.7)
Workers' compensation liability – non-current	(80.5)	(76.5)
Workers' compensation – Total	-	-
Deferred income taxes – current	9.4	7.8
Deferred income taxes – non-current	330.8	318.2
Deferred income taxes – Total	340.2	326.0
Income tax payable (reduction to income tax payable)	11.8	9.0
Other net liabilities	(4.0)	(6.3)
Net Amended FFA liability	(813.4)	(786.1)
Restricted cash assets of the AICF	144.7	146.9
Unfunded Net Amended FFA liability	\$ (668.7)	\$ (639.2)

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Asbestos Liability

The amount of the asbestos liability reflects the terms of the Amended FFA, which has been calculated by reference to (but is not exclusively based upon) the most recent actuarial estimate of the projected future asbestos-related cash flows prepared by KPMG Actuaries. The asbestos liability also includes an allowance for the future claims-handling costs of the AICF. The Company will receive an updated actuarial estimate as of 31 March each year. The last actuarial assessment was performed as of 31 March 2007.

The changes in the asbestos liability for the quarter ended 30 June 2007 are detailed in the table below:

	A\$ Millions	A\$ to US\$ rate	US\$ Millions
Asbestos liability – 31 March 2007	A\$ (1,598.1)	1.2395	\$ (1,289.3)
Asbestos claims paid ¹	20.0	1.2024	16.6
AICF claims-handling costs incurred ¹	0.7	1.2024	0.6
Effect of foreign exchange			(66.7)
Asbestos liability – 30 June 2007	<u>A\$ (1,577.4)</u>	1.1782	<u>\$ (1,338.8)</u>

Insurance Receivable – Asbestos

The changes in the insurance receivable for the quarter ended 30 June 2007 are detailed in the table below:

	A\$ Millions	A\$ to US\$ rate	US\$ Millions
Insurance receivable – 31 March 2007	A\$ 216.3	1.2395	\$ 174.5
Insurance recoveries ¹	(7.5)	1.2024	(6.2)
Change in estimate ²	0.2	1.1782	0.2
Effect of foreign exchange			8.9
Insurance receivable – 30 June 2007	<u>A\$ 209.0</u>	1.1782	<u>\$ 177.4</u>

Deferred Income Taxes – Asbestos

The changes in the deferred income taxes - asbestos for the quarter ended 30 June 2007 are detailed in the table below:

	A\$ Millions	A\$ to US\$ rate	US\$ Millions
Deferred income taxes – 31 March 2007	A\$ 404.1	1.2395	\$ 326.0
Amounts offset against income tax payable ¹	(2.8)	1.2024	(2.3)
Impact of asbestos adjustments ¹	(0.5)	1.2024	(0.4)
Effect of foreign exchange			16.9
Deferred income taxes – 30 June 2007	<u>A\$ 400.8</u>	1.1782	<u>\$ 340.2</u>

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Other Net Liabilities

Other net liabilities include a provision for asbestos-related education and medical research contributions of US\$3.7 million at 30 June 2007. Also included in other net liabilities are the other assets and liabilities of the AICF at 30 June 2007, which include US\$0.5 million of trade receivables and prepayments, US\$0.4 million of fixed assets, and US\$1.2 million of trade payables and accruals.

Restricted Cash Assets of the AICF

Cash and cash equivalents of the AICF are reflected as restricted assets as these assets are restricted for use in the settlement of asbestos claims and payment of the operating costs of the AICF.

The changes in the restricted cash assets of the AICF for the quarter ended 30 June 2007 are detailed in the table below:

	A\$ Millions	A\$ to US\$ rate	US\$ Millions
Restricted cash assets – 31 March 2007	A\$ 182.1	1.2395	\$ 146.9
Asbestos claims paid ¹	(20.0)	1.2024	(16.6)
AICF operating costs paid - claims-handling ¹	(0.7)	1.2024	(0.6)
AICF operating costs paid - non claims-handling ¹	(0.7)	1.2024	(0.6)
Insurance recoveries ¹	7.5	1.2024	6.2
Interest and investment income ¹	1.9	1.2024	1.6
Other ¹	0.4	1.2024	0.3
Effect of foreign exchange			7.5
Restricted cash assets – 30 June 2007	A\$ 170.5	1.1782	\$ 144.7

¹ The average exchange rate for the period is used to convert the Australian dollar amount to US dollars based on the assumption that these transactions occurred evenly throughout the period.

² The spot exchange rate at 30 June 2007 is used to convert the Australian dollar amount to US dollars as the adjustment to the estimate was made on that date.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Claims Data

The AICF provides compensation payments for Australian asbestos-related personal injury claims against the Liable Entities. The claims data in this section are only reflective of these Australian asbestos-related personal injury claims against the Liable Entities.

For the three months ended 30 June 2007 and twelve months ended 31 March 2007, the following table, provided by KPMG Actuaries, shows the claims filed, the number of claims dismissed, settled or otherwise resolved for each period and the average settlement amount per claim:

	Three Months Ended 30 June 2007	Twelve Months Ended 31 March 2007
Number of claims filed	155	463
Number of claims dismissed	31	121
Number of claims settled or otherwise resolved	109	416
Average settlement amount per settled claim	A\$ 135,742	A\$ 166,164
Average settlement amount per settled claim	US\$ 112,893	US\$ 127,165

The following table, provided by KPMG Actuaries, shows the activity related to the numbers of open claims, new claims and closed claims during each of the past five years and the average settlement per settled claim and case closed:

	For the Period Ended 30 June 2007	For the Year Ended 31 March			
		2007	2006(1)	2005	2004
Number of open claims at beginning of period	490	564	712	687	743
Number of new claims	155	463	346	489	379
Number of closed claims	140	537	502	464	435
Number of open claims at end of period	505	490	556	712	687
Average settlement amount per settled claim	A\$ 135,742	A\$ 166,164	A\$ 151,883	A\$ 157,594	A\$ 167,450
Average settlement amount per case closed	A\$ 105,685	A\$ 128,723	A\$ 122,535	A\$ 136,536	A\$ 121,642
Average settlement amount per settled claim	US\$ 112,893	US\$ 127,165	US\$ 114,318	US\$ 116,572	US\$ 116,127
Average settlement amount per case closed	US\$ 87,895	US\$ 98,510	US\$ 92,229	US\$ 100,996	US\$ 84,356

⁽¹⁾ Information includes claims data for only 11 months ended 28 February 2006. Claims data for the 12 months ended 31 March 2006 were not available at the time the Company's financial statements were prepared.

Under the terms of the Amended FFA, the Company has obtained rights of access to actuarial information produced for the AICF by the actuary appointed by the AICF (the "Approved Actuary"). The Company's future disclosures with respect to claims statistics are subject to it obtaining such information from the Approved Actuary. The Company has had no general right (and has not obtained any right under the Amended FFA) to audit or otherwise require independent verification of such information or the methodologies to be adopted by the Approved Actuary. As such, the Company will need to rely on the accuracy and completeness of the information and analysis of the Approved Actuary when making future disclosures with respect to claims statistics.

James Hardie Industries N.V. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. Commitments and Contingencies

ASIC Proceedings

In February 2007 ASIC announced that it was commencing civil proceedings in the Supreme Court of New South Wales (the "Court") against the Company, ABN 60 and ten former officers and directors of the James Hardie Group. While the subject matter of the allegations varies between individual defendants, the allegations against the Company are confined to alleged contraventions of provisions of the Australian Corporations Act/Law relating to continuous disclosure, a director's duty of care and diligence, and engaging in misleading or deceptive conduct in respect of a security.

In the proceedings, ASIC seeks:

- declarations regarding the alleged contraventions;
- orders for pecuniary penalties in such amount as the Court thinks fit up to the limits specified in the Corporations Act;
- orders that Michael Brown, Michael Gillfillan, Meredith Hellicar, Martin Koffel, Peter Macdonald, Philip Morley, Geoffrey O'Brien, Peter Shafron, Gregory Terry and Peter Willcox be prohibited from managing an Australian corporation for such period as the Court thinks fit;
- an order that the Company execute a deed of indemnity in favour of ABN 60 Pty Limited in the amount of A\$1.9 billion or such amount as ABN 60 or its directors consider is necessary to ensure that ABN 60 remains solvent; and
- its costs of the proceedings.

ASIC stated in February 2007 that it would not pursue the claim for indemnity if the conditions precedent to the Original FFA as announced on 1 December 2005 were satisfied. The Company and the other parties to the agreement provided certification to ASIC in March 2007 that the conditions precedent to the Amended FFA dated 21 November 2006 have been satisfied. However, ASIC has not yet taken any step to withdraw the indemnity claim. The Company believes the claim is unnecessary having regard to the asbestos funding arrangements the Company has put in place with the New South Wales Government and other parties to the Amended FFA. The indemnity claimed by ASIC can only be activated by a Court order and then only if ASIC is able to prove its claim against the Company and the Court is satisfied in the exercise of its discretion that the order ought be made. The Company will vigorously resist any action by ASIC in court to obtain the issue of such an order.

ASIC has indicated that its investigations continue and may result in further actions, both civil and criminal. However, it has not indicated the possible defendants to any such actions.

The Company has entered into deeds of indemnity with certain of its directors and officers, as is common practice for publicly listed companies. The Company's articles of association also contain an indemnity for directors and officers and the Company has granted indemnities to certain of its former related corporate bodies which may require the Company to indemnify those entities against indemnities they have granted their directors and officers. To date, claims for payments of expenses incurred have been received from certain former directors and officers in relation to the ASIC investigation, and in relation to the examination of these persons by ASIC delegates, the amount of which is not significant. Now that proceedings have been brought against former directors and officers of the James Hardie Group, the Company is likely to incur further liabilities under these indemnities. Initially, the Company has obligations, or has offered, to advance funds in respect of defence costs and depending on the outcome of the proceedings, may be or become responsible for these and other amounts.

There remains considerable uncertainty surrounding the likely outcome of the ASIC proceedings in the longer term and there is a possibility that the related costs to the Company could be material. However, at this stage, it is not possible to determine the amount of any such liability. Therefore, the

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

Company believes that both the probable and estimable requirements under SFAS No. 5, "Accounting for Contingencies," for recording a liability have not been met.

Environmental and Legal

The operations of the Company, like those of other companies engaged in similar businesses, are subject to a number of federal, state and local laws and regulations on air and water quality, waste handling and disposal. The Company's policy is to accrue for environmental costs when it is determined that it is probable that an obligation exists and the amount can be reasonably estimated. In the opinion of management, based on information presently known except as set forth above, the ultimate liability for such matters should not have a material adverse effect on either the Company's consolidated financial position, results of operations or cash flows.

The Company is involved from time to time in various legal proceedings and administrative actions incidental or related to the normal conduct of its business. Although it is impossible to predict the outcome of any pending legal proceeding, management believes that such proceedings and actions should not, except as it relates to asbestos as described above, individually or in the aggregate, have a material adverse effect on its consolidated financial position, results of operations or cash flows.

8. Short and Long-Term Debt

Debt consists of the following components:

(Millions of US dollars)	30 June 2007	31 March 2007
Short-term debt	\$ 60.0	\$ 83.0
Long-term debt	65.0	105.0
Total debt ¹	<u>\$ 125.0</u>	<u>\$ 188.0</u>

¹ Total debt at 5.90% and 5.91% weighted average rates at 30 June 2007 and 31 March 2007, respectively.

The Company's credit facilities currently consist of 364-day facilities in the amount of US\$110.0 million, which as of 30 June 2007, all had a maturity date in June 2008. The Company also has term facilities in the amount of US\$245.0 million, which as of 30 June 2007, had a maturity date in June 2010. For all facilities, interest is calculated at the commencement of each draw-down period based on the US\$ London Interbank Offered Rate ("LIBOR") plus the margins of individual lenders, and is payable at the end of each draw-down period. During the three months ended 30 June 2007 and 2006, the Company paid commitment fees in the amount of US\$0.1 million and US\$0.2 million, respectively. At 30 June 2007, there was US\$125.0 million drawn under the combined facilities and US\$230.0 million was available.

Short-term debt at 30 June 2007 and 31 March 2007 comprised US\$60.0 million and US\$83.0 million, respectively, drawn under the 364-day facilities. Long-term debt at 30 June 2007 and 31 March 2007 comprised US\$65.0 million and US\$105.0 million, respectively, drawn under the term facilities.

At 30 June 2007, management believes that the Company was in compliance with all restrictive covenants contained in its credit facility agreements. Under the most restrictive of these covenants, the Company is required to maintain certain ratios of debt to equity and net worth and levels of earnings before interest and taxes and has limits on how much it can spend on an annual basis in relation to asbestos payments to the AICF.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The Company anticipates being able to meet its future payment obligations from existing cash, unutilised committed facilities and future net operating cash flows.

9. Amended ATO Assessment

In March 2006, RCI Pty Ltd ("RCI"), a wholly owned subsidiary of the Company, received an amended assessment from the ATO in respect of RCI's income tax return for the year ended 31 March 1999. The amended assessment relates to the amount of net capital gains arising as a result of an internal corporate restructure carried out in 1998 and has been issued pursuant to the discretion granted to the Commissioner of Taxation under Part IVA of the Income Tax Assessment Act 1936. The original amended assessment issued to RCI was for a total of A\$412.0 million. However, after two remissions of general interest charges ("GIC") made by the ATO during fiscal year 2007, the total was revised to A\$368.0 million and is comprised of the following as of 30 June 2007:

(Millions of dollars)	US\$ ⁽¹⁾	A\$
Primary tax after allowable credits	\$ 146.0	A\$ 172.0
Penalties ⁽²⁾	36.5	43.0
GIC	129.9	153.0
Total amended assessment	<u>\$ 312.4</u>	<u>A\$ 368.0</u>

(1) US\$ amounts calculated using the A\$/US\$ foreign exchange spot rate at 30 June 2007.

(2) Represents 25% of primary tax.

During fiscal year 2007, the Company agreed with the ATO that in accordance with the ATO Receivable Policy, the Company would pay 50% of the total amended assessment being A\$184.0 million (US\$156.2 million), and provide a guarantee from James Hardie Industries N.V. in favour of the ATO for the remaining unpaid 50% of the amended assessment, pending outcome of the appeal of the amended assessment. The Company also agreed to pay GIC accruing on the unpaid balance of the amended assessment in arrears on a quarterly basis. Up to 30 June 2007, GIC totaling A\$85.6 million has been paid to the ATO. On 16 July 2007, the Company paid A\$3.1 million in GIC in respect of the quarter ended 30 June 2007.

On 30 May 2007, the ATO issued a Notice of Decision disallowing the Company's objection to the amended assessment. On 11 July 2007, the Company filed an application appealing the Objection Decision with the Federal Court of Australia.

RCI strongly disputes the amended assessment and is pursuing all avenues of appeal to contest the ATO's position in this matter. The ATO has confirmed that RCI has a reasonably arguable position that the amount of net capital gains arising as a result of the corporate restructure carried out in 1998 has been reported correctly in the fiscal year 1999 tax return and that Part IVA does not apply. As a result, the ATO reduced the amount of penalty from an automatic 50% of primary tax that would otherwise apply in these circumstances, to 25% of primary tax. In Australia, a reasonably arguable position means that the tax position is about as likely to be correct as it is not correct. The Company and RCI received legal and tax advice at the time of the transaction, during the ATO enquiries and following receipt of the amended assessment. The Company believes that it is more likely than not that the tax position reported in RCI's tax return for the 1999 fiscal year will be upheld on appeal. Therefore, the Company believes that the requirements under FIN 48 for recording a liability have not been met and therefore it has not recorded any liability at 30 June 2007 for the remainder of the amended assessment.

James Hardie Industries N.V. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Continued)
(Unaudited)

The Company expects that amounts paid in respect of the amended assessment would be recovered by RCI (with interest) at the time RCI is successful in its appeal against the amended assessment. As a result, the Company has treated all payments in respect of the amended assessment that have been made up to 30 June 2007 as a deposit and it is the Company's intention to treat any payments to be made at a later date as a deposit.

10. Stock-Based Compensation

At 30 June 2007, the Company had the following stock-based compensation plans: the Executive Share Purchase Plan; the Managing Board Transitional Stock Option Plan; the JHI NV 2001 Equity Incentive Plan; the JHI NV Stock Appreciation Rights Incentive Plan; the Supervisory Board Share Plan; the Supervisory Board Share Plan 2006 and the Long-Term Incentive Plan.

The following table summarises all of the Company's shares available for grant and the movement in all of the Company's outstanding options:

	Shares Available for Grant	Outstanding Options	
		Number	Weighted Average Exercise Price
Balance at 1 April 2007	19,420,793	18,939,817	A\$ 7.52
Exercised	-	(400,360)	A\$ 6.51
Forfeited	504,500	(504,500)	A\$ 8.05
Balance at 30 June 2007	<u>19,925,293</u>	<u>18,034,957</u>	A\$ 7.53

There were no stock options granted during the three months ended 30 June 2007.

Compensation expense arising from stock option grants as estimated using option-pricing models was US\$1.5 million and US\$1.5 million for the three months ended 30 June 2007 and 30 June 2006, respectively. As of 30 June 2007, the unrecorded deferred stock-based compensation balance related to stock options was US\$9.0 million after estimated forfeitures and will be recognised over an estimated weighted average amortisation period of 1.6 years.

Item 2. Quantitative and Qualitative Disclosures About Market Risk

James Hardie Industries N.V. and Subsidiaries

(Unaudited)

In this report, James Hardie Industries N.V. and its subsidiaries are collectively referred to as “we,” “us,” or “our,” and the terms “US\$”, “A\$”, “NZ\$”, “PHP”, refer to United States dollars, Australian dollars, New Zealand dollars and Philippine pesos, respectively.

We have operations in foreign countries and, as a result, are exposed to foreign currency exchange rate risk inherent in purchases, sales, assets and liabilities denominated in currencies other than the U.S. dollar. We also are exposed to interest rate risk associated with our long-term debt and to changes in prices of commodities we use in production.

Our policy is to enter into derivative instruments solely to mitigate risks in our business and not for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

We have significant operations outside of the United States and, as a result, are exposed to changes in exchange rates which affect our financial position, results of operations and cash flows. In addition, payments to the AICF are required to be made in Australian dollars which, because the majority of our revenues is produced in U.S. dollars, exposes the Company to risks associated with fluctuations in the U.S. dollar/Australian dollar exchange rate.

For the three months ended 30 June 2007, the following currencies comprised the following percentages of our net sales, cost of goods sold, expenses and liabilities:

	US\$	A\$	NZ\$	Other ⁽¹⁾
Net sales	82.3%	11.0%	4.1%	2.6%
Cost of goods sold	83.1%	10.7%	3.7%	2.5%
Expenses ⁽²⁾	49.0%	45.5%	2.0%	3.5%
Liabilities (excluding borrowings) ⁽²⁾	15.0%	83.3%	1.0%	0.7%

⁽¹⁾ Comprises Philippine pesos and Euros.

⁽²⁾ Liabilities include A\$ denominated asbestos liability, which was initially recorded in the fourth quarter of fiscal year 2006. Expenses include adjustments to the liability. See Note 6 for further information.

We purchase raw materials and fixed assets and sell some finished product for amounts denominated in currencies other than the functional currency of the business in which the related transaction is generated. In order to protect against foreign exchange rate movements, we may enter into forward exchange contracts timed to mature when settlement of the underlying transaction is due to occur. At 30 June 2007, there were no such material contracts outstanding.

Interest Rate Risk

We have market risk from changes in interest rates, primarily related to our borrowings. At 30 June 2007, all of the Company's borrowings were variable-rate. From time to time, we may enter into interest rate swap contracts in an effort to mitigate interest rate risk. As of 30 June 2007, the Company had no interest swap contracts outstanding. As of 30 June 2007, the Company had an outstanding forward rate agreement of US\$25.0 million with a fixed rate of 5.07% excluding margin from February 2007 to February 2008.

Commodity Price Risk

The Company is exposed to changes in prices of commodities used in its operations, primarily associated with energy, fuel and raw materials such as pulp and cement. Pulp has historically

Item 2. Quantitative and Qualitative Disclosures About Market Risk

James Hardie Industries N.V. and Subsidiaries

(Unaudited)

demonstrated more price sensitivity than other raw materials that we use in our manufacturing process. In addition, energy, fuel, and cement prices rose in fiscal year 2007 and continued to rise during the first quarter of fiscal year 2008. Pulp prices have also been subject to significant price fluctuations in the past. The Company expects that pulp, energy, fuel and cement prices will continue to fluctuate in the near future. To minimise the additional working capital requirements caused by rising prices related to these commodities, the Company may seek to enter into contracts with suppliers for the purchase of these commodities that could fix the Company's prices over the longer-term. However, if we enter into such contracts with suppliers and if such commodity prices decrease, the Company's cost of sales may be negatively impacted due to the fixed pricing over the longer-term.

James Hardie Industries N.V. and Subsidiaries

(Unaudited)

This Financial Report forms part of a package of information about the Company's results. It should be read in conjunction with the other parts of this package, including the Media Release, Management Presentation and Management's Analysis of Results.

Disclaimer

This Financial Report of results contains forward-looking statements. James Hardie may from time to time make forward-looking statements in its periodic reports filed with or furnished to the United States Securities and Exchange Commission on Forms 20-F and 6-K, in the annual reports to shareholders, in offering circulars and prospectuses, in media releases and other written materials and in oral statements made by the Company's officers, directors or employees to analysts, institutional investors, representatives of the media and others. Examples of forward-looking statements include:

- expectations about the timing and amount of payments to the Asbestos Injuries Compensation Fund (AICF), a special purpose fund for the compensation of proven asbestos-related personal injury and death claims;
- expectations with respect to the effect on the Company's financial statements of those payments;
- statements as to the possible consequences of proceedings brought against the Company and certain of its former directors and officers by the Australian Securities and Investments Commission;
- expectations that our credit facilities will be extended or renewed;
- projections of the Company's operating results or financial condition;
- statements regarding the Company's plans, objectives or goals, including those relating to competition, acquisitions, dispositions and the Company's products;
- statements about the Company's future performance; and
- statements about product or environmental liabilities.

Words such as "believe," "anticipate," "plan," "expect," "intend," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. The Company cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under "Risk Factors" beginning on page 6 of the Form 20-F filed on 6 July 2007 with the Securities and Exchange Commission, include but are not limited to: all matters relating to or arising out of the prior manufacture of products that contained asbestos by current and former James Hardie subsidiaries; required contributions to the AICF and the effect of foreign exchange on the amount recorded in the Company's financial statements as an asbestos liability; compliance with and changes in tax laws and treatments; competition and product pricing in the markets in which the Company operates; the consequences of product failures or defects; exposure to environmental, asbestos or other legal proceedings; general economic and market conditions; the supply and cost of raw materials; the success of research and development efforts; reliance on a small number of product distributors; compliance with and changes in environmental and health and safety laws; risks of conducting business internationally; compliance with and changes in laws and regulations; foreign exchange risks; the successful implementation of new software systems; and the effect of natural disasters. The Company cautions that the foregoing list of factors is not exhaustive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements. Forward-looking statements speak only as of the date they are made.